



Report to the Secretary of Defense

PERFORMANCE-BASED MANAGEMENT TASK GROUP

Report FY05-3

- **Recommendations regarding the adoption of a performance-based management system for civilian employees in the Department of Defense, where performance standards are aligned to organizational goals, and reviews and appraisals are handled accordingly**

July 2005

Report Documentation Page				Form Approved OMB No. 0704-0188	
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE JUL 2005		2. REPORT TYPE		3. DATES COVERED 00-00-2005 to 00-00-2005	
4. TITLE AND SUBTITLE Performance-Based Management Task Group				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Defense Business Board,1155 Defense Pentagon,Washington,DC,20301-1155				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT Same as Report (SAR)	18. NUMBER OF PAGES 45	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			

PERFORMANCE-BASED MANAGEMENT TASK GROUP REPORT

TASK

In support of the Department's ongoing transformation efforts, and at the request of the Under Secretary of Defense (Personnel & Readiness), and the endorsement of the Under Secretary of Defense (Comptroller), the Defense Business Board (DBB) formed a Task Group "to assess and make recommendations to the Department of Defense (DoD) on how to prepare the Department for the adoption of a performance-based management system for civilian employees, where performance standards are aligned to organizational goals, and reviews and appraisals are handled accordingly."

Specifically, the Task Group was asked for advice on how the Department should "link job standards and appraisals to organizational goals and outcomes; and how DoD should provide the structure necessary to help its managers make this transition, to include any suggested training (to conduct reviews and coaching) or models to be used."

Per the Terms of Reference for this Task Group, the deliverables are to provide:

1. An assessment of the Department's design and implementation strategy of a performance-based management system using industry best practices as its benchmark; specifically, how should DoD link organizational goals to individual performance objectives and what central structure/guidelines should the Office of the Secretary of Defense provide to the Components?
2. Examples and recommendations of successful organizational transformations with respect to the adoption of a "performance climate" where, at all levels, performance standards and appraisals were effectively aligned to organizational goals.
3. Examples and recommendations regarding benchmarking private sector best practices with respect to how the Department should prepare its managers to implement a performance-based management system; specifically, any recommended training or models to be used.

Defense Business Board

Concurrently, the DBB was tasked by the Deputy Secretary of Defense to "review the National Security Personnel System (NSPS) implementation plans and to provide a list of manageable next steps required to ensure NSPS reaches its potential." The Board deliberated on those recommendations during its May 6, 2005 meeting, and presented its final recommendations to the Deputy Secretary of Defense. While some of those prior recommendations are integrated into this final report, a separate listing of them as originally presented can be found at **Appendix A** of this report.

PROCESS

The tasks were performed by the DBB's Human Resources Task Group.

Task Group Chairman: Frederic W. Cook

Task Group Members: Madelyn Jennings, Jerry Lindauer, John Madigan and Bill Phillips

Task Group DoD Liaison: Bradley Bunn (Deputy PEO, NSPS)

Task Group Executive Secretary: Kelly S. Van Niman
(DBB, Executive Director)

The Task Group received briefings on DoD's personnel demonstration projects and NSPS implementation plans. Additionally, the Task Group interviewed companies and consultants to review private sector best practices.

RESULTS

During the Board's July 28, 2005 meeting, the DBB concluded that the implementation of a performance-based management system throughout the Department was at risk because the Department appears to be taking a bottom-up approach rather than a top-down strategic approach, and by allowing individual organizations to develop strategic plans before having clearly defined Department-wide goals communicated by the Secretary of Defense. Because individual performance goals are aligned only to the person's immediate organization's goals, the current bottom-up

approach poses a high risk of goal misalignment—both at the organization and individual levels.

PERFORMANCE-BASED MANAGEMENT

The DBB recommends that the Secretary of Defense implement a Performance-Based Management System to direct civilian leaders' attention and energy to achieve the dual objectives of business process transformation and civilian force transformation to meet the demands of a 21st Century workforce as well as the threats faced by continually evolving security situation. The DBB has defined in its previous Report FY04-4, Management Agenda Task Group Report, recommendations related to business management priorities for the Secretary of Defense and his senior leadership. These priorities are the DBB's recommended enterprise goals.

A performance-based management system is used to manage a large complex organization and to create a performance-based culture. This outcome is achieved by the senior leader communicating the enterprise goals to his/her direct reports, and asking them to create unit objectives (supported by individual objectives) that will help achieve the enterprise goals. This process is cascaded throughout the organization. Hence, the organization achieves clarity and accountability for measuring performance against those objectives and goals. *A lasting cultural change will be achieved when individuals in the organization believe their performance contributes to the enterprise's success.*

A significant finding by the Board, and pivotal to the realization of lasting cultural change in the Department, was the direction in which the Department is approaching the development of its performance-based management system for NSPS. Rather than taking a top-down strategic planning approach, which is the private sector best practice, the Department appears to be taking a bottom-up approach by developing individual organizational strategic plans before having adopted and communicated clearly defined Department-wide enterprise goals. Individual performance goals for the civilian workforce are being based on each organization's strategic plan, but those plans do not derive from higher, enterprise-wide goals and objectives defined by the Secretary of Defense.

RECOMMENDATIONS FOR THE IMPLEMENTATION OF A PERFORMANCE-BASED MANAGEMENT SYSTEM THROUGHOUT DOD

1. Establish Enterprise Objectives First, Followed by Quantifiable Unit and Individual Objectives Tied to Organizational Goals

In response to how the Department should link job standards and appraisals to organizational goals and outcomes, the DBB recommends that the Department, and specifically the Secretary and Deputy Secretary of Defense, clearly define a few key measurable objectives for the Department. These enterprise objectives are the starting point for the development of a performance-based management system.

In the DBB's Report FY04-4, the DBB outlined a Management Agenda for the Department of Defense. The DBB recommended three fundamental priorities for the Secretary of Defense that would drive transformation. To recap, these were:

- Fix the Department's Organizational Structure
- Drive Key End-to-End Business Process Improvements Across each of the Five Business Missions of the Department
- Transform the Management of the Civilian Workforce

Goals and objectives for critical areas that require management attention in the Department also are outlined in the DBB's Management Agenda Report FY04-4 (**Appendix B**). To recap, the six main topic areas at the core of transformational change in the Department that the DBB identified were:

- Governance and Organization
- Human Resources
- Management Information / Financial Operations
- Base Realignment and Closure (BRAC)

Defense Business Board

- Supply Chain / Acquisition Reform
- Proactive Management of Healthcare

Performance-based management is the benchmark system in the private sector for articulating the most important objectives of the enterprise and then cascading down those objectives to organizational components. Each component in the hierarchy determines how it can best contribute to the achievement of the higher unit's objectives, and, once approved, these become the component's objectives. The process continues downward to the lowest appropriate level until all units are aligned with the enterprise's overall objectives, and all key employees have a defined and aligned role to play in organizational transformation.

The DBB recommends the following guiding principles on which to base the development of enterprise, unit and individual objectives for the Department's Performance-Based Management System, where job standards and appraisals are truly linked to organizational goals and outcomes:

- a. Top-down strategic approach and process
- b. Limited enterprise goals, e.g., no more than five, which are important strategic directions for the Department, inclusive, clearly defined, and capable of being embraced and supported by the DoD's leaders
- c. System should include objective-setting and measurement for the Department's senior leadership (Secretary of Defense, Deputy Secretary of Defense, the Under Secretaries of Defense, the Service Secretaries, Defense Agency heads, Executive-level PAS, and SES)
- d. Objectives should be clearly defined, measurable, strategic (not just financial), and outcome/results-oriented – whether “transformational” and “operational”
 - Individual objectives should justify why the job exists

Defense Business Board

- e. Important objectives may be multi-year but only if they can be broken down into interim steps/goals so that the progress can be measured over the near term, i.e., no greater than the performance measurement period
- f. Once defined and set, the objectives should not be changed until achieved, declared failed, or realigned because a higher mission goal has changed
- g. Enterprise objectives and those cascaded to an organizational unit must transcend changes in executive leadership
- h. Objectives for individuals should have an individual performance element and an organizational performance element to support and encourage teamwork
- i. Objectives should be designed to be consistent with the Government Performance and Results Act (GPRA) and the President's Management Agenda

A performance-based management system may be used by the Department as the basis for merit-based pay increases (and bonuses where allowed by law) for ALL civilian employees, but this is not its primary purpose. Its primary purpose is to align the efforts of the senior leadership of a complex organization, like DoD, toward accomplishing common goals and improving organizational effectiveness and efficiency.

2. Design an Enterprise-Level Performance Tracking System and Adopt Practices that Communicate Progress throughout the Organization

To answer the second part of the DBB's task to provide recommendations for a successful organizational transformation with respect to the adoption of a "performance climate" the DBB recommends that an enterprise-level performance tracking system be designed and implemented across the Department. This performance tracking system should be designed in conjunction with the development of important enterprise objectives and tied to the DoD-wide Balanced Scorecard recommended by the DBB in an earlier Task Group Report (Report FY02-2, December 2002).

Defense Business Board

Private companies that have successfully adopted a “performance climate” have ensured that their enterprise-level performance tracking system have measurable milestones and a measure of ultimate achievement.

Additionally, employees knew that these measures were monitored by the organization’s senior leadership (President, CEO, COO), because they received emails from the President praising the departments’ successes, they participated in all-hands (town hall) meetings where the CEO/COO praised department and individual successes, and they received the company newsletter where corporate, departmental and individual successes were acclaimed and progress to be achieved was highlighted.

It is important to note, however, that the absence of quantitative measures of performance and achievement did not disqualify an important objective from being included in their performance-based management system. In the case of the Department of Defense, an important DoD-wide objective of successful implementation of NSPS can be measured in relation to its implementation plan and employee attitude surveys, but assessment of overall effectiveness may remain necessarily subjective.

The DBB recommends the adoption of a red-amber-green performance tracking system, similar in design to the example included in **Appendix C**. A person’s overall rating should be a factor of both their organization’s performance and their individual performance. Additionally, pay pool monies should be allocated among organizational entities based on outcomes of performance-against-objectives (starting with those entities that report directly to the Secretary of Defense). Progress (or lack thereof) should be measured monthly by each individual office, and compiled and reported quarterly to their respective Under Secretary or Service Secretary or Chairman of the Joint Chiefs of Staff.

As the Secretary’s focal point for Department-wide transformation, the Deputy Secretary of Defense should review the status of the Department’s achievement of previously established milestones and ultimate achievement of enterprise-wide goals and objectives. Likewise, it should be the purview of the Deputy Secretary of Defense to approve the Department’s tracking system for the performance-based management system, and to review and modify it as appropriate.

SUCCESSFUL IMPLEMENTATION OF NATIONAL SECURITY PERSONNEL SYSTEM

Successful implementation of new civilian personnel authorities is critical to achieving the Department's goal of transforming its civilian force to match transformation of its military force by creating an agile, flexible and innovative civilian force.

After reviewing the NSPS implementation plans, the DBB concluded that NSPS is on track in:

- Implementing the new human resources-related rules for the Department's civilian, General Schedule (GS) workforce (regardless of bargaining status) according to a ramp-up schedule of selected organizational entities.
- Limiting NSPS to U.S. installations—at least for now.
- Excluding all Wage Grade (hourly) civilian employees from NSPS implementation.
- Expressing a commitment to train employees and managers on their rights and responsibilities under NSPS.

RECOMMENDATIONS FOR IMPLEMENTATION OF NSPS

At the DBB's May 6, 2005 quarterly Meeting, the Board presented initial recommendations to the Department regarding specific revisions to its approach to the implementation of NSPS. The following summarizes those recommendations:

- Pay Banding: Only implement to the professional workforce, i.e. lawyers, doctors, engineers, etc. retaining the GS structure for others in non-professional, namely managerial and administrative positions.

Defense Business Board

- Pay Pools: Establish “fire walls” between the various pay bands of an organization’s pay pool, so merit and bonus money cannot move between them.
- Communications: Engage communications experts to devise and deliver a major communications program to explain the “why” of the change and dispel fears.
- Training: Begin training initiatives with a focus on “how this affects me” and utilize capable coaches in the field to ensure consistent, quality training across the Department.

Upon further consideration, the Board concluded during its quarterly July 28, 2005 meeting to modify its recommendations with respect to Pay Banding, and to add recommendations regarding Performance Appraisals and Pay Pools. Specifically,

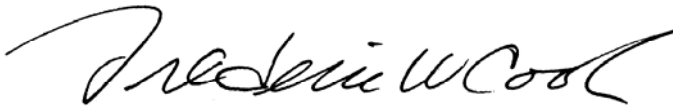
- Pay Banding: Consider either 1) retaining the GS structure (nomenclature) that identifies a civilian’s “rank”, because it provides the opportunity for recognition and reward through promotion, and because it is essential to maintaining symmetry with the Department’s military rank structure or 2) collapsing all 15 Grades into 3-5 pay bands
 - Hybrid approach possible
 - Either alternative: eliminate 10 steps within Grade; all increases and bonuses based on performance tied to unit and individual goals; conduct a market study to adjust salaries to reflect market trends per career fields
- Performance Appraisals: Adjust the NSPS implementation plan to help assure success by having in place prior to launch a solid performance appraisal system linked to the Department’s enterprise goals
- Pay Pools: Allocate pay pool monies among organizational entities based on outcomes of performance-against-objectives (starting with those entities that report directly to the Secretary of Defense)

CONCLUSION

While there is almost universal agreement on the need for rewards and recognition to form part of any effective performance management system, there is less agreement on the best approach. The approach finally adopted by the Department must reflect its strategy for transforming its business processes and civilian workforce to a high-performance culture. Ultimately, success will come if the Department designs a performance management system that is aligned with its desired culture and its performance is measured and rewarded accordingly.

The ultimate goal of NSPS must be to improve organizational performance. Hence, the DBB's recommendation is to "start at the top" by defining enterprise-level, Departmental goals and cascading responsibility for their achievement throughout the Department. Implementation includes political appointees and SES executives, not just former GS employees. While the development of goals and measures is critical, lasting improvements in business performance will be achieved when the Department aligns its tactical results with strategic objectives, focusing on the successful execution of its strategy.

Respectively submitted,

A handwritten signature in black ink, appearing to read "Frederic W. Cook". The signature is fluid and cursive, with the first name "Frederic" being more prominent than the last name "Cook".

Frederic W. Cook

APPENDIX A:

Defense Business Board Report

on the

Implementation of the National Security

Personnel System (NSPS)

(May 2005)



DEFENSE BUSINESS
BOARD

OFFICE OF THE SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

INFO MEMO

June 10, 2005, 5:00 PM

FOR: SECRETARY OF DEFENSE
ACTING DEPUTY SECRETARY OF DEFENSE

THROUGH: UNDER SECRETARY OF DEFENSE (COMPTROLLER) *JS*

FROM: Gus Pagonis, Chairman, Defense Business Board (DBB) *GP*

SUBJECT: Implementation of National Security Personnel System (NSPS)

- Attached is the final report from the DBB containing recommendations for the Implementation of NSPS.
- The DBB advises you consider the following changes to your approach:
 - Pay Banding: Only implement to the professional workforce, i.e. lawyers, doctors, engineers, etc. retaining the GS structure for others in non-professional, namely managerial and administrative positions.
 - Pay Pools: Establish “fire walls” between the various pay bands of an organization’s pay pool, so merit and bonus money cannot move between them.
 - Communications: Engage communications experts to devise and deliver a major communications program to explain the “why” of the change and dispel fears.
 - Training: Effective initiatives begin with a focus on “how this affects me.”

COORDINATION: None

Attachment:
As stated

Prepared by: Kelly S. Van Niman, 695-0499



Defense Business Board Report on Implementation of National Security Personnel System (NSPS)

- This Info Memo responds to the request given on February 10, 2005 to review NSPS implementation plans and provide a list of manageable next steps required to ensure NSPS reaches its potential. Fred Cook chaired this Task Group, and was assisted by Madelyn Jennings, Bill Phillips, Jerry Lindauer and John Madigan.
- Successful implementation of new civilian personnel authorities is critical to the DoD's goal of transforming our civilian workforce to match transformation of our military by creating an agile, flexible and innovative civilian force. Further, failure of DoD to successfully implement NSPS could compromise the Department's efforts to attract and retain the required skills to support the DoD mission.
- At Deputy Secretary Wolfowitz's recommendation, we met with Secretary England to discuss our task. At his recommendation, the DBB Human Resources (HR) Task Group received a presentation from the NSPS Program Office on March 9th. In addition, the Task Group consulted HR professionals at Comcast, General Electric Company (GE) and National Academy of Public Administration (NAPA) for their experiences and advice on implementing pay banding and pay-for-performance among a large salaried workforce.
- After reviewing the implementation plans to date the Task Group believes that NSPS is on track in:
 - Taking a phased approach to the implementation of the new HR rules under NSPS to the DoD General Schedule (GS) workforce (regardless of bargaining status), i.e. there are 60,000 GS 01-15 civilians in Spiral 1.1 organizations. Other units, called Spirals 1.2 and 1.3, will be phased-in over 18 months until approximately 300,000 of DoD's GS employees are part of NSPS. DoD's total GS workforce is approximately 500,000.
 - Limiting NSPS to U.S. installations—at least for now.
 - At present, excluding all Wage Grade (hourly) civilian employees from NSPS implementation.
 - Expressing commitment to train employees and managers on their rights and responsibilities under NSPS.
- However, we disagree with the following aspects of the current NSPS design and implementation because it simultaneously:

- Eliminates the entire GS grade structure for all occupational series in Spiral One organizations and substitutes for them a few occupational groupings that contain a limited number of pay bands (3 to 5).
 - Pay bands are appropriate for professional career groups, such as engineers, scientists, lawyers, etc., where advancement in experience, value and contribution can occur without changing the basic job description.
 - However, substituting three to five pay bands for the full GS 01-15 grade structure may be inappropriate for those in hierarchical management or administrative positions, because it eliminates the incentive and reward potential of promotions, and will permit average performers who have reached their top step to continue to receive increases above their market value.
- Groups all former GS 01-15 employees in a Spiral One organization into a single “pay pool” that will encompass all salary pay bands, and from which all merit increases and bonuses will be drawn on a zero-sum basis.
 - This will permit merit and bonus money to float throughout a single "pay pool", which will include all pay bands and former GS 01-15 employees, without any internal "firewalls".
 - The likely result will be a natural movement of pay pool money from the lower-levels to the upper levels, unfairly depriving lower-level employees of an equal opportunity to compete for merit pay increases and bonus dollars.
- The Board raises a note of caution with respect to the plans to eliminate the 10-step pay progression system within the GS levels for all employees in Spiral One units, and replace the 10-step pay progression for all grades with merit pay increases and bonuses based on evaluations of individual performance.
 - The main value of merit pay and performance-based management is in the higher-level positions, where individual discretion, impact and accountability are the greatest.
 - Elimination of the 10-step pay progression structure in lower GS grades may cause stress and resentment in excess of any benefits gained by implementing the system to these grades.

- Additionally, a large number of appeals from the lower GS-grade positions could result in response to implementing NSPS. This would cause managers to expend a significant amount of time and energy with a negligible net benefit.
- However, given the need to pursue the least disruptive implementation approach, as well as, demonstrate that all people are being treated equally and fairly, the Department must implement pay-for-performance to all employees all at once, regardless of their GS ranking.

RECOMMENDATIONS: That you make the following changes in the implementation plan of NSPS:

- Pay Banding: Only implement the pay band structure to the professional workforce, i.e. lawyers, doctors, engineers, etc. Retain the current GS structure (but under a different name) for those in managerial and administrative positions because it permits the best people to receive visible promotions, as well as, pay increases.
 - Among the professional workforce, when evaluating their performance, do not limit the highest pay band (and hence the most money) to those with supervisory responsibilities.
 - The private sector has learned that requiring your best professionals to become a supervisor to make more money is a waste or diversion of great talent.
- Pay Pools: Establish “fire walls” between the various pay bands of an organization’s pay pool. Do not permit merit and bonus money to move between pay bands, or renamed GS grades, except under exceptional circumstances.
- Communications: Engage public affairs/communications experts to work with the HR elements of each organization to devise and deliver a major communications program to explain the “why” of the change.
 - The Secretary of Defense must communicate the Department’s strategic goals for the organization to begin the process of cascading goals throughout DoD.
 - The Secretary of Defense should reiterate his commitment to fairness with regard to the implementation of NSPS.
 - The communications strategy must convince the affected workforce that NSPS is fair and that it will help create an environment where the individual’s goals are in sync with the organization’s goals.

- Individuals must believe that their performance matters to achieve a cultural change.
- Training: Expert communications must be matched with effective training initiatives that begin with a focus on “how this affects me.”
 - Sufficient and capable coaches must be identified in each field office to ensure the highest quality training.
 - Training must address the cultural change desired. Do not just train people how to do the particular steps involved in performance management, but also convince them that it makes sense, is fair and overall dollars are not being reduced.
- Hourly Employees: Defer indefinitely, and perhaps disavow, any intent to apply pay-for-performance merit pay increases to wage grade (hourly) employees.
 - Strategically, it is important to have a policy that does not separate union versus non-union employees.
 - Hourly positions are much more limited in their accountability, discretion and impact on others—it is a set task and/or standard.
 - We know of no large-scale, private sector success in implementing pay-for-performance basic pay increases to hourly, unionized employees. Bonuses would still be available for employees whose performance warrants recognition.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Frederic W. Cook". The signature is fluid and cursive, with the first name "Frederic" being more prominent and the last name "Cook" following in a similar style.

Frederic W. Cook

APPENDIX B:

Defense Business Board

Management Agenda Final Report

(FY04-04)



**Report to the Senior Executive Council,
Department of Defense**

MANAGEMENT AGENDA TASK GROUP

Report FY04-4

- **Recommendations related to business management priorities for the Secretary of Defense**

MANAGEMENT AGENDA TASK GROUP REPORT

TASK

In support of the Department's ongoing transformation efforts, and at the request of the Director, Program Analysis and Evaluation, and the endorsement of the Under Secretary of Defense (Comptroller), the Defense Business Board (DBB) formed this Task Group to assess and make recommendations to the Department of Defense on management priorities for the next four years. The ultimate objective of this work is to provide the Department's leadership with a prioritization of management initiatives that will contribute to the continuing process of defense transformation well into the future.

The Task Group should deliver the following:

1. A comprehensive prioritization of the most critical areas/initiatives requiring management attention in the Department of Defense during the next four years. This list should be drawn from the four primary areas of DBB focus over the past three years: human resources, financial management, acquisition reform, and general management.
2. Recommendations on the most effective way to address/resolve each of the critical areas cited above. This should include broad recommendations related to organizational design, leadership and accountability, and realistic expectations for progress.

Task Group Chairman: Denis Bovin

Task Group Members: Neil Albert, Fred Cook, James Kimsey, Arnold Punaro,
Dov Zakheim, Mort Zuckerman

Task Group Sponsor: Ken Krieg, Director, Program Analysis and Evaluation

Task Group DoD Liaison: Ken Krieg, Director, Program Analysis and Evaluation

Task Group Executive Secretary: Thomas B. Modly, DBB

PROCESS

The Task Group held a kick off meeting on October 6, 2004 in New York to gather background information from prominent individuals and organizations which have studied and analyzed the problems facing the Department. The Task Group extends its sincere gratitude to Mr. Clark Murdock and his colleagues from the Center for Strategic and International Studies for sharing their analysis and recommendations from their study, “Beyond Goldwater-Nichols: Defense Reform for a New Strategic Era Phase 2 Status Report.” The Task Group also extends its appreciation to General Chuck Boyd (USAF, ret.) and his colleagues from Business Executives for National Security for sharing their views of the key management agenda topics facing the Department.

The Task Group presented an outline to the Deputy Secretary of Defense in November 2004 that highlighted six main topic areas at the core of transformational change in the Department. They were:

- Governance and Organization
- Human Resources
- Management Information/Financial Operations
- Base Realignment and Closure (BRAC)
- Supply Chain/Acquisition Reform
- Proactive Management of Healthcare

The Board reviewed these six main topic areas, and briefed the Deputy Secretary of Defense in February 2005 on three fundamental priorities that it believes will drive transformational change for the Department and that will require the Secretary’s personal attention and highest priority.

RECOMMENDATIONS

The DBB reviewed the six main topic areas, and believes there are three fundamental priorities that will drive transformational change for the Department and that will require your personal attention and highest priority. Details of these recommendations can be found in the attached final presentation.

- **Fix the Department's Organizational Structure**
 - Assess the current functional management challenges of the Department of Defense with the goal of establishing clear lines of authority, responsibility and accountability for OSD, the Joint Staff, and the Military Departments.
 - Examine and decide what changes in the Department's current governance structure are required to transform DoD into an operating organization with clear implementation authorities to achieve strategic objectives that you have defined for the Department.
- **Drive Key End-to-End Business Process Improvements Across each of the Five Business Missions of the Department**
 - Personnel Management
 - Weapons Systems Acquisition and Sustainment
 - Real Property Lifecycle Management
 - Materiel and Service Supply Management
 - Financial Management
 - Consistent with ongoing operational transformation to achieve joint warfighting capabilities, require the leaders for each business mission area to prioritize and implement measurable, end-to-end business process improvements within their respective areas that will support the warfighter.
- **Transform the Management of the Civilian Workforce**
 - Develop and implement a new model for managing civilian personnel to include Department-wide recruiting, succession planning, career development, performance management and pay-for-performance for SES and upper-level GS employees that cascades departmental objectives into all levels of the organization.

Defense Business Board

As stated in the DoD 2003 Transformation Planning Guidance, “we must envision and invest in the future today, so we can defend our homeland and freedoms tomorrow.” The DBB believes that the preceding three issues are the most critical to this process. By clarifying the lines of authority and responsibility within the Department, orienting business process improvements towards enhancing warfighter effectiveness, and modernizing the management of the Department’s professional civilian force, the Secretary will lay a strong foundation for building a “culture of continual transformation.” Specific action plans with clear accountability and metrics should be developed in these areas.

Respectfully submitted,

Denis A. Bovin
Task Group Chairman

Attachments:
As stated



Management Agenda Task Group

**Final Report
February 2005**



DBB Task Group

Denis Bovin (Task Group Chairman)

Neil Albert

Frederic Cook

James Kimsey

Arnold Punaro

Dov Zakheim

Mort Zuckerman

Thomas Modly (DBB Executive Director)

Kelly Van Niman (DBB Deputy Director)

DoD Sponsor

Ken Krieg (Director, Program Analysis and Evaluation)



In support of the Department's ongoing transformation efforts, the DBB was asked to assess and make recommendations to the Department on management priorities for the next four years.

Terms of Reference Objectives

1. A comprehensive prioritization of the most critical areas/initiatives requiring management attention in the Department of Defense during the next four years. This list should be drawn from the four primary areas of DBB focus over the past three years: human resources, financial management, acquisition reform, and general management.
2. Recommendations on the most effective way to address/resolve each of the critical areas cited above. This should include broad recommendations related to organizational design, leadership and accountability, and realistic expectations for progress.



- October 6, 2004 Task Group kick-off meeting and briefings in NYC
 - Center for Strategic and International Studies
 - Business Executives for National Security
- November 17, 2004 presentation to the Deputy Secretary of six main topic areas at the core of transformational change in the Department
- February 10, 2005 presentation to the Deputy Secretary of three fundamental priorities that it believes will drive transformational change for the Department and that will require the Secretary's personal attention and highest priority



- The Secretary will lay a strong foundation for building a “culture of continual transformation” by:
 - Clarifying the lines of authority and responsibility within the Department
 - Orienting business process improvements towards enhancing warfighter effectiveness
 - Modernizing the management of the Department’s professional civilian force
- Specific action plans with clear accountability and metrics should be developed in these areas



Recommendations



Critical Areas Requiring Management Attention

- **Governance and Organization**
- **Human Resources**
- **Management Information Systems/Financial Operations**
- **Proactive Management of Healthcare**
- **Supply Chain / Acquisition**
- **Base Realignment and Closure**



GOVERNANCE AND ORGANIZATION

Goal: *Establish clear lines of authority, responsibility and accountability for OSD, the Joint Staff, and the Military Departments and identify a senior leader with the authority to manage the day-to-day business operations of the Department.*

Key Objectives for the Next Four Years to achieve this goal:

- Assess the current functional challenges of the Department of Defense
- Pursue a theme of tiered accountability between Component & OSD-level responsibilities with the goals of improving joint interoperability and reducing duplicative support staff functions
- Examine and decide what changes in the Department's governance structure would achieve the above-stated goals
- Consider the following scenarios, collectively and on individual merit:
 - Creation of a Chief Management Officer
 - Reorganization of DoD around investment/execution; policy; and finance functions
 - Broadening of the roles of the Service Secretaries to include certain cross-Departmental responsibilities and staff them accordingly
 - Broadening of the jurisdiction of the newly legislated Defense Business Systems Management Committee to lead Department-wide business transformation efforts



HUMAN RESOURCES

Goal: *Match the transformation of the military with a more agile, innovative, high-performing and results-oriented civilian leadership and workforce.*

Key Objectives for the Next Four Years to achieve this goal:

- Effectively and expeditiously implement NSPS legislation
- Develop and implement an objectives-based performance management system for DoD's civilians that is tied to organizational goals set by the Secretary of Defense
- Institute Department-wide civilian personnel capabilities assessment and succession planning for GS-13 and above
 - Consider raising the performance bar for those in mission-critical positions and foster expedited career development for high performers
 - Develop a more effective process for identifying poor-performing employees, informing them of their need for improvement, and then either helping them meet job requirements, moving them to another more suitable position, or separating them in a fair manner, with transitional assistance to other employment or to retirement



MANAGEMENT INFORMATION SYSTEMS / FINANCIAL OPERATIONS

Goal: *Implement a Department-wide strategy to modernize management information systems to ensure timely and accurate asset, financial and human resource visibility across DoD.*

Key Objectives for the Next Four Years to achieve this goal:

- Clarify the mission, goals and objectives of BMMP and communicate these across the Department
- Implement a process for senior-level control over information technology investments – to include the creation of a business-oriented Chief Information Officer (not a CTO) with stronger oversight responsibility for business systems investments across the Department
- Define “financial success” in relation to near-term, manageable progress that can be leveraged to achieve longer-term goals



PROACTIVE MANAGEMENT OF HEALTHCARE

Goal: *Maintain the efficiency and reduce the cost of DoD's health care for reservists, retirees and their dependents.*

Key Objectives for the Next Four Years to achieve this goal:

- Stabilize and clarify funding (current mix and future) for the Department's growing health care costs, especially for retirees and their dependents and for reservists
- Chart the growing complexity of mandates for health coverage under Tricare for retirees and reservists and provide a clear understanding to decision-makers regarding the financial implications of those mandates
- Develop alternative models for the delivery and financing of health care for the department of defense
- Explore recommendations for closer collaboration and partnerships with the Veterans Administration for a more overall efficient and cost effective health care for retirees, reservists and veterans



SUPPLY CHAIN / ACQUISITION

Goal: *Collect and promote across the Services the sharing of leading edge commercial tools, philosophies and measurements to improve product development, quicken product deployment and reduce overall product life-cycle costs.*

Key Objectives for the Next Four Years to achieve this goal:

- Identify a single point-of-contact for the leadership of the DoD supply chain
- Implement LEAN Management principles throughout the Department's supply chain
- Implement new acquisition rules for the purchase of commodities, commercial-off-the-shelf-solutions (COTS) and services



BASE REALIGNMENT AND CLOSURE

Goal: *Continue to aggressively explore methods for more efficiently and effectively identifying, managing and using the Department's fixed assets.*

Key Objectives for the Next Four Years to achieve this goal:

- Provide Congress a BRAC list that reflects both current warfighting requirements, as well as, future transformation needs, i.e., taking into consideration areas that could benefit from MIS improvements and that effectively utilize capabilities-based planning
- Implement a coordinated strategy for constructive engagement with Congress, state governments, local community leaders and businesses, and local base commanders and outplacement assistance firms
- Develop a plan and mechanism to track investments and resources that will be required to close facilities, to capture long-term net savings to the Department

APPENDIX C:

**Proposed Objectives-based Performance
Management Tracking System**

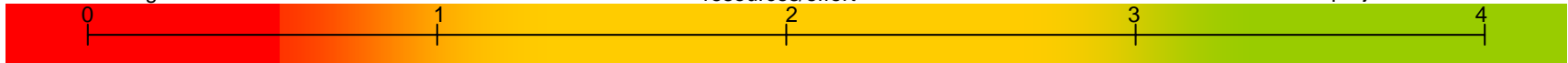


Objectives-based Performance Management Tracking System

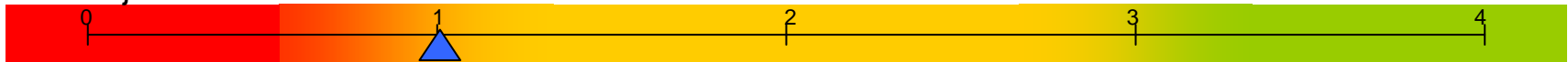
Failed or in danger
of failing

At Risk; requires additional
resources/effort

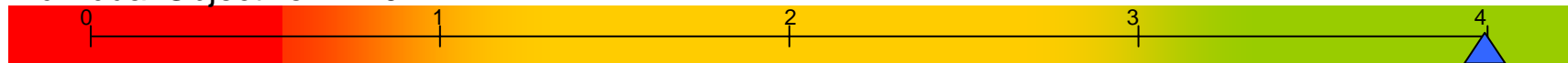
Achieved or
projected to achieve



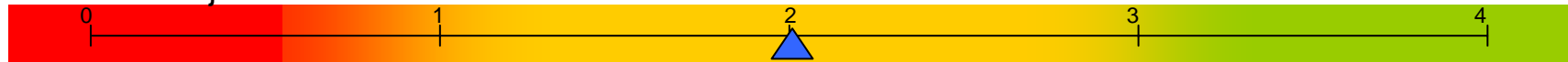
Unit Objective: 1.0



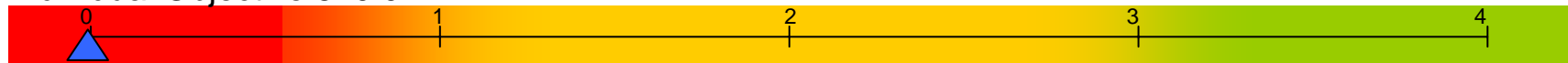
Individual Objective 1: 4.0



Individual Objective 2: 2.0



Individual Objective 3: 0.0



Overall: 1.75

